

MOUNT AYR COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2005

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MOUNT AYR COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September, 2004 Election)		
Craig Elliott	President	2004
Mike McGhee (resigned 1/12/04)	Vice President (thru 3/8/04)	2005
Beth Whitson	Vice President (as of 3/8/04)	2005
Eric Brown	Board Member (appointed 2/9/04)	2004
Rodney Shields	Board Member	2006
David Richards	Board Member	2006

Board of Education		
(After September, 2004 Election)		
Rodney Shields	President	2006
Eric Brown	Vice President	2005
Beth Whitson	Board Member	2005
David Richards	Board Member	2006
Craig Elliott	Board Member	2007

School Officials		
William Decker	Superintendent	2005
Janette Campbell	District Secretary/Treasurer	2005
James Pederson	Attorney	Indefinite



Independent Auditor's Report

To the Board of Education
Mount Ayr Community School District
Mount Ayr, Iowa

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Mount Ayr Community School District, Mount Ayr, Iowa as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Mount Ayr Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Governmental Auditing Standards, we have also issued our reports dated October 4, 2005, on our consideration of the Mount Ayr Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 13 and 45 through 46 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mount Ayr Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004, (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

October 4, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Mount Ayr Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

General Fund revenues decreased from \$6,341,353 in fiscal 2004 to \$6,079,408 in fiscal 2005. General Fund expenditures increased from \$6,095,964 in fiscal 2004 to \$6,451,614 in fiscal 2005. The District's General Fund balance decreased from \$465,046 in fiscal 2004 to \$39,029 in fiscal 2005.

The decrease in General Fund revenues was attributable to a decrease in state aid due to a decline in student enrollment and reduced state revenues. The increase in expenditures was due primarily to unanticipated expenditures in the instructional area of the budget.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of The Mount Ayr Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Mount Ayr Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Mount Ayr Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

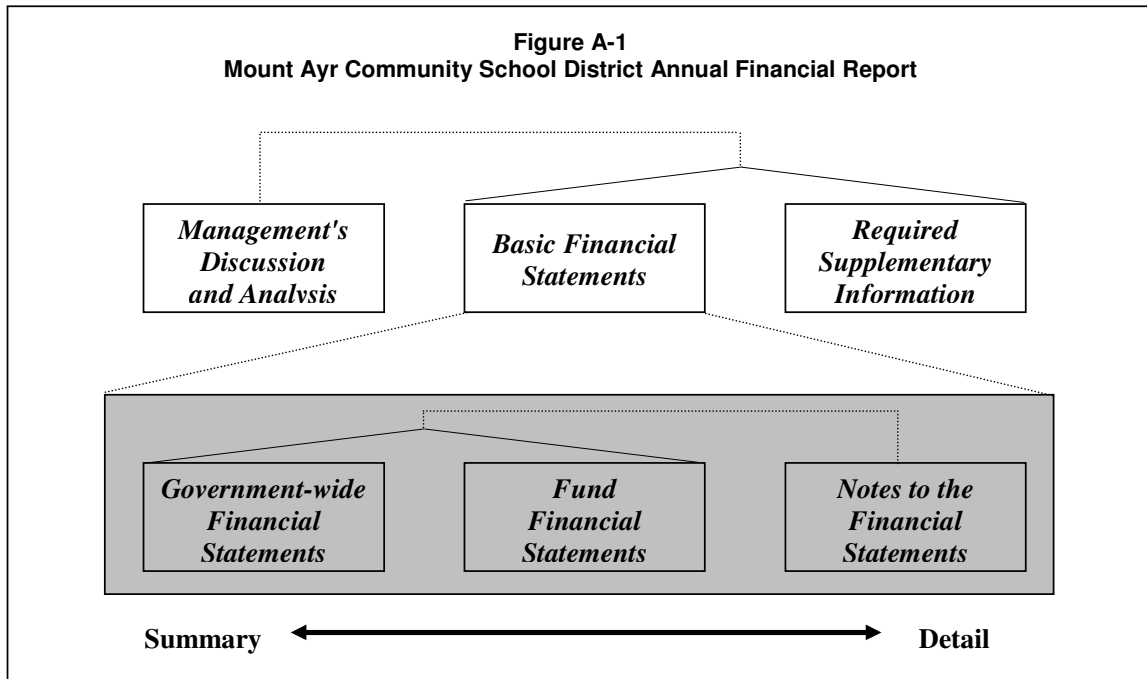


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

Business type activities: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2005 compared to June 30, 2004.

Figure A-3 Condensed Statement of Net Assets (expressed in thousands)							
	Governmental		Business Type		Total		Total
	Activities		Activities		Total		Change
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Current and other assets	\$ 4,765	5,348	81	76	4,846	5,424	-10.7%
Capital assets	6,665	6,916	32	33	6,697	6,949	-3.6%
Total assets	11,430	12,264	113	109	11,543	12,373	-6.7%
Long-term debt obligations	248	312	-	-	248	312	-20.5%
Other liabilities	4,435	4,539	24	20	4,459	4,559	-2.2%
Total liabilities	4,683	4,851	24	20	4,707	4,871	-3.4%
Net assets							
Invested in capital assets, net of related debt	6,877	6,726	32	33	6,909	6,759	2.2%
Restricted	174	284	-	-	174	284	-38.7%
Unrestricted	(304)	403	57	56	(247)	459	-153.8%
Total net assets	\$ 6,747	7,413	89	89	6,836	7,502	-8.9%

The District's combined net assets decreased by nearly 8.9%, or approximately \$666, 000 over the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$110,000, or 38.7% over the prior year. The decrease was primarily a result of increased expenditures in the Capital Projects Fund.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints by debt covenants, enabling legislation or other legal requirements, decreased approximately \$706,000, or 153.8%.

Figure A-4 shows the change in net assets for the year ended June 30, 2005.

Figure A-4 Changes in Net Assets (expressed in thousands)						
	Governmental Activities		Business Type Activities		Total District	
	Year ended June 30,		Year ended June 30,		Year ended June 30,	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for service and sales	\$ 785	786	149	153	934	939
Operating grants, contributions and restricted interest	754	912	162	155	916	1,067
General revenues:						
Property tax	2,452	2,224	-	-	2,452	2,224
Local option sales and services tax	-	153	-	-	-	153
Unrestricted states grants	2,527	2,752	-	-	2,527	2,752
Unrestricted investment earnings	41	29	-	-	41	29
Other	174	29	-	-	174	29
Total revenues	6,733	6,885	311	308	7,044	7,193
Program expenses:						
Governmental activities:						
Instruction	4,572	4,699	-	-	4,572	4,699
Support services	2,307	1,885	-	-	2,307	1,885
Non-instructional programs	22	21	311	303	333	324
Other expenses	498	387	-	-	498	387
Total expenses	7,399	6,992	311	303	7,710	7,295
Change in net assets	\$ (666)	(107)	-	5	(666)	(102)

Property tax and unrestricted state grants account for 73.95% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 92.97% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,733,000 and expenses were \$7,399,000. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues and using carryover balances.

Figure A-5 presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5 Total and Net Cost of Governmental Activities (expressed in thousands)		
	Total	Net Cost
	Cost of	of
	Services	Services
Instruction	\$ 4,572	3,252
Support services	2,307	2,307
Non-instructional programs	22	22
Other expenses	498	279
Totals	\$ 7,399	5,860

The cost financed by users of the District's programs was \$785,000.

Federal and state governments subsidized certain programs with grants and contributions totaling \$754,000.

The net cost of governmental activities was financed with \$2,452,000 in property and other taxes and \$2,527,000 in unrestricted state grant.

Business Type Activities

Revenues for business type activities were \$311,000 and expenses were \$311,000. The District's business type activities include the School Nutrition Fund and Student Construction Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The district increased meal prices in 2002-2003. This increase has resulted in increased revenue to the School Nutrition Fund which the District will utilize in the future replacement of obsolete kitchen equipment.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Mount Ayr Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$314,573, below last year's ending fund balances of \$789,282. The primary reason for the decrease in combined fund balances in fiscal 2005 is due to the decrease in the General Fund Balance.

Governmental Fund Highlights

The District's General Fund financial position has declined. Special Education Transportation and tuition was a factor to this decline. Also adding to this decreasing General Fund balance is a decrease in state aide and a declining enrollment.

The General Fund balance decreased from \$465,046 to \$39,029, due in part to a decrease in state aide, declining enrollment, and unanticipated increase in expenditures.

The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$128,508 fiscal 2004 to \$6,662 in fiscal 2005. While revenues remained approximately the same, the District substantially increased spending from the PPEL.

The Capital Projects Fund balance increased from \$68,074 to \$130,272 due to the revenues collected from the One Cent Local Option Sales Tax. The District kept expenditures down in order to have a carry over balance to add to the 2006 budget year.

Propriety Fund Highlights

Proprietary Fund net assets decreased from \$89,347 at June 30, 2004 to \$88,956 at June 30, 2005, representing a decrease of approximately .44%. As previously noted, the District increased meal prices in 2002-2003. Since that time, the District has been able to match the expenditures with available revenue and maintain a balanced budget.

BUDGETARY HIGHLIGHTS

Over the course of the year, The Mount Ayr Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with the unanticipated expenditures and the purchase of a school bus.

Total expenditures were more than budgeted, due primarily to the District's budget for the General and Capital Projects Funds. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Funds. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

At June 30, 2005, the District had invested \$6.7 million, net of accumulated depreciation in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment (see Figure A-6). This represents a net decrease of 3.6% from last year.

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Land	\$ 84	84	-	-	84	84	0.0%
Buildings	5,425	5,596	-	-	5,425	5,596	-3.1%
Improvements other than buildings	177	74	-	-	177	74	139.2%
Furniture and equipment	979	1,162	32	33	1,011	1,195	-15.4%
Totals	\$ 6,665	6,916	32	33	6,697	6,949	-3.6%

At June 30, 2005, the district had \$248,000 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 20.5% from last year (see Figure A-7).

<p align="center">Figure A-7 Outstanding Long-Term Obligations (expressed in thousands)</p>			
June 30,			
	2005	2004	Change
Capital notes and leases	\$ 184	228	-19.3%
Early retirement	64	84	-23.8%
Totals	\$ 248	312	-20.5%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

The financial position of the Mount Ayr Community School District will be affected a great deal by the need in the near future to either renovate, or replace, the portion of the elementary school building that was constructed in 1936. Either option will involve considerable investment. The fact that the district constituents voted to approve the one cent local option sales tax in the fall of 2003 creates a funding stream that will at least soften the impact on the levy and greatly enhance the probability of completing this project. There is still some possibility that the scope of the project could still require a vote of the district patrons to either implement the \$1.34 voter PPEL levy, or in the least desirable scenario, pass a referendum allowing the district to issue bonds to pay for construction. Although the project is likely to necessitate an increase in levy to cover either the PPEL levy or to repay bond indebtedness, the Mount Ayr Community School District currently has one of the lowest levies in this part of the state. If either option were needed to be used, the result would leave the district with a levy that will be higher than the levy rate currently, but very likely still less than districts that surround MACS.

The Mount Ayr Community School District enrollment has declined over the last few years, but shows some signs of leveling off at the current level. After several years of repeated decreases in student population, the district increased by 11 students in 2004-2005. Under Iowa's school funding formula, district funding is highly dependent upon district enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Janette Campbell, District Secretary/Treasurer and Business Manager, Mount Ayr Community School District, 1001 East Columbus Street, Mount Ayr, IA 50854.

Basic Financial Statements

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2005

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP	\$ 1,393,256	-	1,393,256
Other	933,731	29,690	963,421
Receivables:			
Property tax:			
Delinquent	48,667	-	48,667
Succeeding year	2,173,557	-	2,173,557
Accounts	2,526	2,954	5,480
Accrued interest:			
ISCAP	8,054	-	8,054
Other	1,281	12	1,293
Due from other governments	204,315	18,663	222,978
Inventories	-	29,433	29,433
Capital assets, net of accumulated depreciation (note 4)	6,664,565	31,789	6,696,354
Total assets	11,429,952	112,541	11,542,493
Liabilities			
Accounts payable	191,150	887	192,037
Salaries and benefits payable	658,943	22,698	681,641
Other payables	14,300	-	14,300
Accrued interest payable	637	-	637
Deferred revenue:			
Succeeding year property tax	2,173,557	-	2,173,557
ISCAP warrants payable	1,388,000	-	1,388,000
ISCAP accrued interest payable	8,664	-	8,664
Long-term liabilities (note 5):			
Portion due within one year:			
Capital notes payable	21,426	-	21,426
Obligation under capital lease	24,993	-	24,993
Early retirement	16,200	-	16,200
Portion due after one year:			
Capital notes payable	137,861	-	137,861
Obligation under capital lease	-	-	-
Early retirement	47,700	-	47,700
Total liabilities	4,683,431	23,585	4,707,016
Net assets			
Invested in capital assets, net of related debt	6,877,444	31,789	6,909,233
Restricted for:			
Management levy	56,251	-	56,251
Physical plant and equipment levy	6,662	-	6,662
Other special revenue purposes	82,359	-	82,359
Other	29,056	-	29,056
Unrestricted	(305,251)	57,167	(248,084)
Total net assets	\$ 6,746,521	88,956	6,835,477

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

		Program Revenues	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
	Expenses		
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,436,993	389,734	241,109
Special instruction	1,332,739	128,092	253,444
Other instruction	801,996	266,658	40,869
	<u>4,571,728</u>	<u>784,484</u>	<u>535,422</u>
Support Service:			
Student services	177,512	-	-
Instructional staff services	316,097	-	-
Administration services	770,077	-	-
Operating and maintenance of plant services	596,941	-	-
Transportation services	380,450	-	-
Other support services	65,926	-	-
	<u>2,307,003</u>	<u>-</u>	<u>-</u>
Non-instructional programs	<u>22,396</u>	<u>-</u>	<u>-</u>
Other expenditures:			
Facilities acquisition	252,136	-	-
Long-term debt interest	9,767	-	-
AEA flowthrough	218,935	-	218,935
Depreciation (unallocated)*	16,797	-	-
	<u>497,635</u>	<u>-</u>	<u>218,935</u>
Total governmental activities	7,398,762	784,484	754,357
Business type activities:			
Non-instructional programs:			
Nutrition services	309,189	147,704	162,340
Other enterprise services	2,171	780	-
Total business type activities	<u>311,360</u>	<u>148,484</u>	<u>162,340</u>
Total Primary Government	<u>\$ 7,710,122</u>	<u>932,968</u>	<u>916,697</u>

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(1,806,150)	-	(1,806,150)
(951,203)	-	(951,203)
(494,469)	-	(494,469)
(3,251,822)	-	(3,251,822)
(177,512)	-	(177,512)
(316,097)	-	(316,097)
(770,077)	-	(770,077)
(596,941)	-	(596,941)
(380,450)	-	(380,450)
(65,926)	-	(65,926)
(2,307,003)	-	(2,307,003)
(22,396)	-	(22,396)
(252,136)	-	(252,136)
(9,767)	-	(9,767)
-	-	-
(16,797)	-	(16,797)
(278,700)	-	(278,700)
(5,859,921)	-	(5,859,921)
-	855	855
-	(1,391)	(1,391)
-	(536)	(536)
(5,859,921)	(536)	(5,860,457)

Exhibit B

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Totals from pages 16 and 17	\$ 7,710,122	932,968	916,697
General Revenues:			
Property tax levied for:			
General purposes			
Capital outlay			
Unrestricted state grants			
Unrestricted investment earnings			
Loss on sale of capital assets			
Other			
Contributions			
Total general revenues			
Change in net assets			
Net assets beginning of year, as restated			
Net assets end of year			

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

Exhibit B

(5,859,921)	(536)	(5,860,457)
2,179,301	-	2,179,301
272,524	-	272,524
2,526,490	-	2,526,490
41,474	145	41,619
(2,092)	-	(2,092)
162,842	-	162,842
13,570	-	13,570
<hr/>		
5,194,109	145	5,194,254
<hr/>		
(665,812)	(391)	(666,203)
7,412,333	89,347	7,501,680
<hr/>		
\$ 6,746,521	88,956	6,835,477
<hr/>		

MOUNT AYR COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Capital Projects	Nonmajor Special Revenue	Total
Assets				
Cash and pooled investments:				
ISCAP	\$ 1,393,256	-	-	1,393,256
Other	691,448	97,792	144,491	933,731
Receivables:	-			
Property tax:	-			
Current year delinquent	46,570	-	2,097	48,667
Succeeding year	2,017,667	-	155,890	2,173,557
Accounts	1,418	-	1,108	2,526
Accrued interest:	-			
ISCAP	8,054	-	-	8,054
Other	1,181	38	62	1,281
Due from other governments	122,008	82,307	-	204,315
Total assets	\$ 4,281,602	180,137	303,648	4,765,387
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 138,799	49,865	2,486	191,150
Salaries and benefits payable	658,943	-	-	658,943
Early retirement payable	16,200	-	-	16,200
ISCAP warrants payable	1,388,000	-	-	1,388,000
ISCAP accrued interest payable	8,664	-	-	8,664
Other payables	14,300	-	-	14,300
Deferred revenue:				
Succeeding year property tax	2,017,667	-	155,890	2,173,557
Total liabilities	4,242,573	49,865	158,376	4,450,814
Fund balances:				
Reserved for:				
TAG	29,056	-	-	29,056
Unreserved	9,973	130,272	145,272	285,517
Total fund balances	39,029	130,272	145,272	314,573
Total liabilities and fund balances	\$ 4,281,602	180,137	303,648	4,765,387

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2005

Total fund balances of governmental funds (Exhibit C)	\$ 314,573
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	6,664,565
--	-----------

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(637)
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Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(231,980)</u>
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Net assets of governmental activities (Exhibit A)	<u><u>\$ 6,746,521</u></u>
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See notes to financial statements.

Exhibit E

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Revenues:					
Local sources:					
Local tax	\$ 2,089,435	-	272,524	89,866	2,451,825
Tuition	423,715	-	-	-	423,715
Other	152,820	-	322	303,056	456,198
Intermediate sources	11,461	-	-	-	11,461
State sources	3,108,498	-	-	76	3,108,574
Federal sources	283,269	-	-	-	283,269
Total revenues	6,069,198	-	272,846	392,998	6,735,042
Expenditures:					
Current:					
Instruction:					
Regular instruction	2,236,940	-	-	26,716	2,263,656
Special instruction	1,317,696	-	-	-	1,317,696
Other instruction	530,135	-	-	249,465	779,600
	4,084,771	-	-	276,181	4,360,952
Support services:					
Student services	173,186	-	-	1,127	174,313
Instructional staff services	319,395	-	-	1,167	320,562
Administration services	732,519	-	-	27,629	760,148
Operation and maintenance of plant services	554,621	-	-	25,459	580,080
Transportation services	302,261	-	-	15,841	318,102
Other support services	65,926	-	-	-	65,926
	2,147,908	-	-	71,223	2,219,131
Other expenditures:					
Facilities acquisition	-	-	210,648	156,484	367,132
Long-term debt:					
Principal	-	43,833	-	-	43,833
Interest and fiscal charges	-	9,978	-	-	9,978
AEA flowthrough	218,935	-	-	-	218,935
	218,935	53,811	210,648	156,484	639,878
Total expenditures	6,451,614	53,811	210,648	503,888	7,219,961
Excess (deficiency) of revenues over (under) expenditures	(382,416)	(53,811)	62,198	(110,890)	(484,919)
Other financing sources (uses):					
Transfers in	-	53,811	-	-	53,811
Transfers out	(53,811)	-	-	-	(53,811)
Sale of equipment	10,210	-	-	-	10,210
Total other financing sources (uses)	(43,601)	53,811	-	-	10,210
Net change in fund balances	(426,017)	-	62,198	(110,890)	(474,709)
Fund balances beginning of year	465,046	-	68,074	256,162	789,282
Fund balances end of year	\$ 39,029	-	130,272	145,272	314,573

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit E) \$ (474,709)

***Amounts reported for governmental activities in the
 statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 138,467	
Depreciation expense/asset disposal	<u>(389,814)</u>	(251,347)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

43,833

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement		<u>16,200</u>
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Change in net assets of governmental activities (Exhibit B)

\$ (665,812)

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

	Enterprise Funds
Assets	
Current assets:	
Cash and investments	\$ 29,690
Accounts receivable	2,954
Accrued interest	12
Due from other governments	18,663
Inventories	29,433
Total current assets	<u>80,752</u>
Non-current assets:	
Property and equipment:	
Machinery and equipment	266,887
Accumulated depreciation	<u>(235,098)</u>
Total non-current assets	<u>31,789</u>
Total assets	<u>112,541</u>
Liabilities	
Current liabilities:	
Accounts payable	887
Salaries and benefits payable	<u>22,698</u>
Total current liabilities	<u>23,585</u>
Net Assets	
Invested in capital assets, net of related debt	31,789
Unrestricted	<u>57,167</u>
Total net assets	<u>\$ 88,956</u>

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	<u>Enterprise Funds</u>
Operating revenue:	
Local sources:	
Charges for services	<u>\$ 148,484</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Depreciation	884
Other	308,305
Other enterprise operations:	
Other	2,171
Total operating expenses	<u>311,360</u>
Operating loss	<u>(162,876)</u>
Non-operating revenue:	
Local sources	145
State sources	4,253
Federal sources	158,087
Total non-operating revenue	<u>162,485</u>
Change in net assets	(391)
Net assets beginning of year	<u>89,347</u>
Net assets end of year	<u><u>\$ 88,956</u></u>

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Enterprise Funds
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 132,596
Cash received from miscellaneous operating activities	13,242
Cash payments to employees for services	(152,732)
Cash payments to suppliers for goods or services	(129,737)
Net cash used in operating activities	<u>(136,631)</u>
Cash flows from non-capital financing activities:	
State grants received	4,117
Federal grants received	128,737
Net cash provided by non-capital financing activities	<u>132,854</u>
Cash flows from investing activities:	
Interest on investments	<u>133</u>
Net decrease in cash and cash equivalents	(3,644)
Cash and cash equivalents at beginning of year	<u>33,334</u>
Cash and cash equivalents at end of year	<u><u>\$ 29,690</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (162,876)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	22,807
Depreciation	884
(Increase) in accounts receivable	(2,646)
Decrease in inventories	2,115
Increase in accounts payable	887
Increase in salaries and benefits payable	2,198
Net cash used by operating activities	<u><u>\$ (136,631)</u></u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	\$ 29,690
Cash and cash equivalents at year end	<u><u>\$ 29,690</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received federal commodities valued at \$22,807.

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2005

	<u>Agency</u>
Assets	
Cash and investments	\$ 3,230
Total assets	<u>3,230</u>
Liabilities	
Accounts payable	<u>3,230</u>
Total liabilities	<u>3,230</u>
Net assets	<u>\$ -</u>

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(1) Summary of Significant Accounting Policies

The Mount Ayr Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Mount Ayr, Iowa, and the predominate agricultural territories in Ringgold and Taylor Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Mount Ayr Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Mount Ayr Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Ringgold County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds consist of two Enterprise funds: School Nutrition and Student Construction. These funds are used to account for the food service operations and industrial arts student construction operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organization and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The Government-wide proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expense when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the support services and other expenditures functions.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(3) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investment	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$ -	-	-	-
2004-05B	1/28/2005	1/27/2006	581,676	7,880	580,000	8,509
2005-06A	6/30/2005	6/28/2006	811,580	174	808,000	155
Total			\$ 1,393,256	8,054	1,388,000	8,664

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2004-05A	\$ -	-	-	-
2004-05B	-	-	-	-
Total	\$ -	-	-	-

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.000%	2.463%
2005-06B	3.500	3.232

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

(4) Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 83,850	-	-	83,850
Construction in progress	-	-	-	-
Total capital assets not being depreciated	83,850	-	-	83,850
Capital assets being depreciated:				
Buildings	9,798,907	-	-	9,798,907
Improvements other than buildings	322,429	114,995	-	437,424
Furniture and equipment	2,724,010	23,472	56,940	2,690,542
Total capital assets being depreciated	12,845,346	138,467	56,940	12,926,873
Less accumulated depreciation for:				
Buildings	4,202,770	171,381	-	4,374,151
Improvements other than buildings	248,079	11,955	-	260,034
Furniture and equipment	1,562,435	194,177	44,639	1,711,973
Total accumulated depreciation	6,013,284	377,513	44,639	6,346,158
Total capital assets being depreciated, net	6,832,062	(239,046)	12,301	6,580,715
Governmental activities capital assets, net	\$ 6,915,912	(239,046)	12,301	6,664,565
Business type activities:				
Furniture and equipment	\$ 266,887	-	-	266,887
Less accumulated depreciation	234,214	884	-	235,098
Business type activities capital assets, net	\$ 32,673	(884)	-	31,789

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 182,937
Special	15,643
Other	22,396

Support services:

Student services	5,599
Instructional staff	19,007
Administration	13,529
Operation and maintenance of plant	16,861
Transportation	62,348
Non-instructional programs	22,396

Unallocated depreciation

Total governmental activities depreciation expense	\$ 377,513
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Business type activities:

Food services	\$ 884
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MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(5) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Early Retirement	Capital Lease	Capital Notes	Total
Balance beginning of year	\$ 63,900	48,393	179,720	292,013
Additions	-	-	-	-
Reductions	16,200	23,400	20,433	60,033
Balance end of year	\$ 47,700	24,993	159,287	231,980

Capital Loan Notes Payable

Details of the District's June 30, 2005 capital loan note indebtedness are as follows:

Period Ending	2001 Capital Loan Note			
June 30,	Interest Rate	Principal	Interest	Total
2006	4.80%	\$ 21,426	7,392	28,818
2007	4.80%	22,467	6,351	28,818
2008	4.80%	23,558	5,260	28,818
2009	4.80%	24,702	4,116	28,818
2010	4.80%	25,902	2,916	28,818
2011	4.80%	27,161	1,657	28,818
2012	4.80%	14,071	338	14,409
Total		\$ 159,287	28,030	187,317

Computer leases

Year ending	
June 30,	
2006	24,993
	24,993
Less amount representing interest	-
Present value of minimum lease payments	\$ 24,993

Early Retirement

The District offers a voluntary early retirement plan to its full-time, certified employees. Eligible employees must be at least age fifty-four by September 1, but not more than sixty-two years of age by June 1 preceding the year of retirement and employees must have completed ten years of service to the District. Employees must complete an application and an attached letter of resignation which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is the difference between the salary schedule base and the employee's placement on the salary schedule using the salary schedule in effect for the last year of employment and subject to a maximum of \$19,475 to \$36,000 per individual depending upon the individual's level of education and service to the District.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$236,143, \$220,761 and \$219,637, respectively, equal to the required contributions for each year.

(7) Risk Management

The District is a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July, 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July, 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December, 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment of the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$271,505.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$218,935 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Required Supplementary Information

MOUNT AYR COMMUNITY SCHOOL DISTRICT

MOUNT AYR COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2005

	Governmental Funds- Actual	Proprietary Funds- Actual
Revenues:		
Local sources	\$ 3,331,411	145,971
Intermediate sources	11,461	-
State sources	3,108,574	4,117
Federal sources	283,269	128,737
Total revenues	<u>6,734,715</u>	<u>278,825</u>
Expenditures:		
Instruction	4,304,302	-
Support services	2,219,131	-
Noninstructional programs	-	282,469
Other expenditures	639,878	-
Total expenditures	<u>7,163,311</u>	<u>282,469</u>
Deficiency of revenues under expenditures	(428,596)	(3,644)
Other financing sources, net	<u>10,210</u>	<u>-</u>
Deficiency of revenues and other financing sources under expenditures	(418,386)	(3,644)
Balances beginning of year	<u>1,352,117</u>	<u>33,334</u>
Balances end of year	<u><u>\$ 933,731</u></u>	<u><u>29,690</u></u>

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
	Original	Final	
3,477,382	3,485,333	3,485,333	(7,951)
11,461	-	-	11,461
3,112,691	2,814,681	2,814,681	298,010
412,006	520,000	520,000	(107,994)
7,013,540	6,820,014	6,820,014	193,526
4,304,302	4,244,250	4,500,000	195,698
2,219,131	2,022,750	2,200,000	(19,131)
282,469	295,000	295,000	12,531
639,878	467,313	610,000	(29,878)
7,445,780	7,029,313	7,605,000	159,220
(432,240)	(209,299)	(784,986)	352,746
10,210	5,000	5,000	5,210
(422,030)	(204,299)	(779,986)	357,956
1,385,451	1,330,113	1,330,113	55,338
963,421	1,125,814	550,127	413,294

MOUNT AYR COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2005

Governmental Funds			
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 6,734,715	327	6,735,042
Expenditures	7,163,311	56,650	7,219,961
Net	(428,596)	(56,323)	(484,919)
Other financing sources	10,210	-	10,210
Beginning fund balances	1,352,117	(562,835)	789,282
Ending fund balances	\$ 933,731	(619,158)	314,573

Proprietary Funds			
Enterprise			
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 278,825	32,144	310,969
Expenses	282,469	28,891	311,360
Net	(3,644)	3,253	(391)
Beginning net assets	33,334	156,987	89,347
Ending net assets	\$ 29,690	160,240	88,956

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$575,687.

During the year ended June 30, 2005, disbursements in the support services and other expenditures functions exceeded the amounts budgeted.

Other Supplementary Information

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2005

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 54,096	81,735	8,660	144,491
Receivables:				
Property tax:				
Current year delinquent	2,097	-	-	2,097
Succeeding year	100,000	-	55,890	155,890
Accounts	-	1,108	-	1,108
Accrued interest	58	-	4	62
Total assets	\$ 156,251	82,843	64,554	303,648
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	484	2,002	2,486
Deferred revenue:				
Succeeding year property tax	100,000	-	55,890	155,890
Total liabilities	100,000	484	57,892	158,376
Fund equity:				
Fund balances:				
Unreserved fund balances	56,251	82,359	6,662	145,272
Total liabilities and fund equity	\$ 156,251	82,843	64,554	303,648

See accompanying independent auditor's report.

Schedule 2

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2005

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax	\$ 89,866	-	-	89,866
Other	292	268,126	34,638	303,056
	90,158	268,126	34,638	392,922
State sources:				
Revenue in lieu of taxes - military credit	76	-	-	76
Total revenues	90,234	268,126	34,638	392,998
Expenditures:				
Instruction:				
Regular instruction:				
Benefits	26,716	-	-	26,716
	26,716	-	-	26,716
Co-curricular instruction:				
Services	-	50,720	-	50,720
Supplies	-	135,937	-	135,937
Property	-	62,808	-	62,808
	-	249,465	-	249,465
Total instruction	26,716	249,465	-	276,181
Support Services:				
Student support services:				
Benefits	1,127	-	-	1,127
	1,127	-	-	1,127
Instructional staff support services:				
Benefits	1,167	-	-	1,167
	1,167	-	-	1,167
Support Services (continued):				
General administration:				
Benefits	1,327	-	-	1,327
	1,327	-	-	1,327
Building administration:				
Benefits	2,422	-	-	2,422
	2,422	-	-	2,422
Business administration:				
Benefits	382	-	-	382
Services	23,498	-	-	23,498
	23,880	-	-	23,880

Schedule 2

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2005

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Expenditures (continued):				
Plant operation and maintenance:				
Benefits	1,709	-	-	1,709
Services	23,750	-	-	23,750
	25,459	-	-	25,459
Student transportation:				
Benefits	1,516	-	-	1,516
Services	14,325	-	-	14,325
	15,841	-	-	15,841
Total support services	71,223	-	-	71,223
Other expenditures:				
Facilities acquisition:				
Property	-	-	156,484	156,484
	-	-	156,484	156,484
Total expenditures	97,939	249,465	156,484	503,888
Excess (deficiency) of revenues over (under) expenditures	(7,705)	18,661	(121,846)	(110,890)
Fund balance beginning of year, as restated	63,956	63,698	128,508	256,162
Fund balance end of year	\$ 56,251	82,359	6,662	145,272

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

	Enterprise Funds		
	School Nutrition	Student Construction	Total
Assets			
Current assets:			
Cash and investments	\$ 26,237	3,453	29,690
Accounts receivable	2,954	-	2,954
Accrued interest	12	-	12
Due from other governments	18,663	-	18,663
Inventories	29,433	-	29,433
Total current assets	77,299	3,453	80,752
Non-current assets:			
Property and equipment:			
Machinery and equipment	266,887	-	266,887
Accumulated depreciation	(235,098)	-	(235,098)
Total non-current assets	31,789	-	31,789
Total assets	109,088	3,453	112,541
Liabilities			
Current liabilities:			
Accounts payable	887	-	887
Salaries and benefits payable	22,698	-	22,698
Total current liabilities	23,585	-	23,585
Net Assets			
Invested in capital assets, net of related debt	31,789	-	31,789
Unrestricted	53,714	3,453	57,167
Total net assets	\$ 85,503	3,453	88,956

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 June 30, 2005

	Enterprise Funds		
	School Nutrition	Student Construction	Total
Operating revenue:			
Local sources:			
Other local sources:			
Food service sales	\$ 135,242	-	135,242
Miscellaneous	12,462	780	13,242
Total operating revenues	147,704	780	148,484
Operating expenses:			
Non-instructional programs:			
Food services operations:			
Salaries	132,007	-	132,007
Benefits	22,923	-	22,923
Services	799	-	799
Supplies	10,955	-	10,955
Food supplies	141,621	-	141,621
Depreciation	884	-	884
	309,189	-	309,189
Other enterprise operations:			
Supplies	-	1,134	1,134
Property	-	1,037	1,037
	-	2,171	2,171
Total operating expenses	309,189	2,171	311,360
Operating loss	(161,485)	(1,391)	(162,876)
Non-operating revenue:			
Interest on investments	145	-	145
State lunch and breakfast program claims	4,253	-	4,253
National School Lunch Program	100,420	-	100,420
School Breakfast Program	34,860	-	34,860
Food distribution	22,807	-	22,807
Total non-operating revenue	162,485	-	162,485
Changes in net assets	1,000	(1,391)	(391)
Net assets beginning of year	84,503	4,844	89,347
Net assets end of year	\$ 85,503	3,453	88,956

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
June 30, 2005

	Enterprise Funds		
	School Nutrition	Student Construction	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 132,596	-	132,596
Cash received from miscellaneous operating activities	12,462	780	13,242
Cash payments to employees for services	(152,732)	-	(152,732)
Cash payments to suppliers for goods or services	(127,566)	(2,171)	(129,737)
Net cash used by operating activities	(135,240)	(1,391)	(136,631)
Cash flows from non-capital financing activities:			
State grants received	4,117	-	4,117
Federal grants received	128,737	-	128,737
Net cash provided by non-capital financing activities	132,854	-	132,854
Cash flows from investing activities:			
Interest on investments	133	-	133
Net decrease in cash and cash equivalents	(2,253)	(1,391)	(3,644)
Cash and cash equivalents at beginning of year	28,490	4,844	33,334
Cash and cash equivalents at end of year	\$ 26,237	3,453	29,690
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	\$ (161,485)	(1,391)	(162,876)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities used	22,807	-	22,807
Depreciation	884	-	884
(Increase) in accounts receivable	(2,646)	-	(2,646)
Decrease in inventories	2,115	-	2,115
Increase in accounts payable	887	-	887
Increase in salaries and benefits payable	2,198	-	2,198
Net cash used by operating activities	\$ (135,240)	(1,391)	(136,631)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	\$ 26,237	3,453	29,690

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received federal commodities valued at \$22,807.

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 June 30, 2005

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 2,641	3,230	2,641	3,230
Liabilities				
Accounts payable	\$ 1,577	2,641	1,577	2,641

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Adult Education	\$ 3,852	2,301	2,027	4,126
Alternative School	888	-	32	856
Art Club	421	517	481	457
Athletics:				
Football	7,655	18,787	18,877	7,565
Volleyball	(1,669)	6,520	4,271	580
Wrestling	(254)	7,831	7,061	516
Boys' basketball	9,343	6,982	9,125	7,200
Girls' basketball	6,340	6,193	6,604	5,929
Boys' track	(3,223)	7,810	8,744	(4,157)
Girls' track	(2,910)	11,778	11,258	(2,390)
Golf	(1,446)	4,043	3,751	(1,154)
Baseball	(4,974)	16,053	11,406	(327)
Softball	(374)	10,340	8,640	1,326
Miscellaneous	(4,422)	5,528	1,131	(25)
Ayrian	3,251	7,205	9,130	1,326
Band	634	14,179	14,300	513
Charity Counts	111	-	-	111
Cheerleaders	1,189	11,085	8,766	3,508
Class:				
2005	297	1,407	3,616	(1,912)
2006	1,937	19,834	14,196	7,575
2007	51	666	1,027	(310)
2008	1,123	52	676	499
Drama Club	1,016	5,208	5,464	760
Drill Team	338	6,722	5,867	1,193
Elementary Library	1,841	690	20	2,511
Elementary Student Council	2,674	10,150	9,709	3,115
Future Farmers of America	18,750	44,457	44,891	18,316
Future Homemakers of America	374	2,109	2,342	141
F.T.A.	940	1,497	1,059	1,378
Gifts/Memorials	5,768	300	1,525	4,543
Industrial Arts	467	1,132	1,729	(130)
Jr. High School	3,216	14,835	11,560	6,491
Library Club	582	1,703	1,913	372
Miscellaneous	(571)	652	616	(535)
Office education (BPA)	2,623	-	-	2,623
Resale	(350)	11,733	10,064	1,319
S.A.D.D.	939	555	674	820
Science Club	806	-	74	732
Elementary Yearbook	348	1,620	1,768	200

Schedule 7

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
International Club	140	-	8	132
Special Olympics	700	257	284	673
Student Council	638	1,672	1,959	351
Vocal music	3,481	1,777	1,180	4,078
Weightlifting	1,158	1,946	1,640	1,464
Total	\$ 63,698	268,126	249,465	82,359

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
June 30, 2005

	Modified Accrual Basis			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 2,451,825	2,376,629	2,377,295	2,024,160
Tuition	423,715	468,609	545,882	546,584
Other	456,198	367,281	450,124	417,165
Intermediate sources	11,461	19,491	23,885	45,615
State sources	3,108,574	3,374,553	3,335,123	3,411,878
Federal sources	283,269	271,334	260,386	289,085
Total	<u>\$ 6,735,042</u>	<u>6,877,897</u>	<u>6,992,695</u>	<u>6,734,487</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 2,263,656	2,383,276	2,195,590	2,318,024
Special instruction	1,317,696	1,271,789	1,330,654	1,301,817
Other instruction	779,600	758,563	717,350	751,655
Support services:				
Student services	174,313	148,048	142,481	187,156
Instructional staff services	320,562	203,150	256,930	208,759
Administration services	760,148	631,628	610,999	599,970
Operation and maintenance of plant services	580,080	451,782	490,606	432,079
Transportation services	318,102	288,136	268,432	311,839
Central support services	65,926	54,662	95,673	156,355
Other support services	-	8,845	-	-
Non-instructional programs	-	-	-	-
Other expenditures:				
Facilities acquisition	367,132	145,579	5,158	607,785
Long-term debt:				
Principal	43,833	41,363	204,463	188,912
Interest and other charges	9,978	12,448	18,409	24,708
AEA flowthrough	218,935	228,706	246,674	249,067
Total	<u>\$ 7,219,961</u>	<u>6,627,975</u>	<u>6,583,419</u>	<u>7,338,126</u>

See accompanying independent auditor's report.

**Van Maanen
& ASSOCIATES, P.C.**

Certified Public Accountants

705 Main St.
Pella, IA 50219
641-628-3737

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
Mount Ayr Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Mount Ayr Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents and have issued our report thereon dated October 4, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mount Ayr Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Mount Ayr Community School District and other parties to whom the District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Mount Ayr Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Van Maanen & Associates, P.C.".

Van Maanen & Associates, P.C.
Certified Public Accountants

October 4, 2005

MOUNT AYR COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED June 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

II-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash disbursements and bank reconciliations were done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable since less than \$500,000 in federal awards.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-05 Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were exceeded during the year ended June 30, 2005.

Recommendation - Official depository limits should be increased before deposits are allowed to exceed limits.

Response - Official depository limits will be increased as needed.

Conclusion - Response accepted.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED June 30, 2005

IV-B-05 Certified Budget - Expenditures for the year ended June 30, 2005, exceeded the amounts budgeted in the support services and other expenditures functional areas.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure that the certified budget is not exceeded.

Conclusion - Response accepted.

IV-C-05 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-05 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-05 Business Transactions - No business transactions were noted between the District and District officials or employees.

IV-F-05 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

IV-G-05 Board Minutes - No transactions were noted requiring Board approval which had not been approved by the Board.

IV-H-05 Certified Enrollment - No variances were noted in the basic enrollment data certified to the Department of Education.

IV-I-05 Deposits and Investments - No instances of noncompliance were noted with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy.

IV-J-05 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-05 Sale of Property - During the year ended June 30, 2005, the District made sales of property in accordance with Chapter 297.22 of the Code of Iowa.